



Via email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

August 16, 2022

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

Re: Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices (File No. S7-17-22) ("Proposal")

Dear Ms. Countryman:

My name is James Katz. I am the Chief Executive Officer of Humankind Investments, an investment advisor focused on socially responsible investing. Our mission is to invest and encourage others to invest in the manner that is best for humanity.

I welcome the opportunity to provide this comment letter in response to the Proposal. I support the rationale behind the Proposal to ensure that investors are provided with information that helps them understand the environmental, social and governance considerations of funds and strategies in which they invest.

The SEC has seen a need for rules that would provide some structure around the use of ESG labels in investment products and strategies. At Humankind Investments, we see this same need. We think there is a general state of confusion in the industry around the meaning of ESG. The SEC's Proposal has the potential to create labels and require disclosures that can ultimately provide clarity to investors. But in its current form, the Proposal falls short of its goal. The main problem we see is that the Proposal fails to draw a sharp distinction between investment strategies that use ESG data *for the sole purpose* of selecting or weighting companies that advisers believe will outperform financially, and those strategies that use ESG data for the purpose of investing more in companies that advisers believe will actually help humanity and the world in some way. **We recommend that the Proposal be modified to draw a sharp distinction in labelling strategies as Business Risk-Driven vs Ethics-Driven.**

#### **Business Risk-Driven vs. Ethics-Driven**

When a socially responsible investor looks out at the world, sees the problems facing society, and wants to make a positive change using the power of their investment portfolio, today they may often accidentally select a fund that uses ESG data solely to mitigate business risks in the companies selected for the fund. This results in a critical mismatch between the goal of the fund and the goal of the investor.

For example, a business risk-driven fund may label a company that moves its factory from the coast to the mountains as earning an improved “E” score because their factory is now less likely to be flooded because of climate change. If all an investor cares about is mitigating business risk, then this is good news. However, a socially responsible investor who prioritizes “E” issues for ethical reasons, would likely want to invest more in companies that are trying to mitigate climate change itself somehow, or at least contribute less to it – not specifically in those companies that are merely preparing for its impact on their business.

Take another example – a business risk-driven strategy would have no qualms investing in a company that systematically hurts people if that company can get away with it and make a profit. Meanwhile, an ethics-driven strategy would consider the human suffering caused by companies, whether or not there was a clear financial consequence for the company in the short term.

Without a distinction between business risk-driven and ethics-driven strategies, investors who come to the table with ethical concerns may be duped into investing in “ESG” products that only aim to minimize business risks.

However, if the SEC were to mandate a labelling distinction between business risk-driven and ethics-driven strategies, investors who come to the ESG space for moral, humanitarian, or ethical reasons would be able to subdivide the world more easily into the set of strategies that interest them. Likewise, other investors who are simply seeking profits in a strategy that mitigates ESG risks would be similarly well-informed.

There are also important advertising implications from this distinction. Funds that are business risk-driven, which exclusively incorporate ESG issues/risks that are “financially material” in their analysis should be more clearly advertising that they work to avoid business risks stemming from ESG issues with this portfolio. They should not be advertising that people will necessarily invest in more ethical firms, or align their portfolio with their values when they invest with them. On the contrary, these funds may need a warning label that they are not simply trying to invest in ethical companies.

### **The Difference Between Calculating and Kind**

You have two friends. One friend always offers you a helping hand regardless of whether they see an immediate benefit for themselves. The other friend helps you out when they see that there is something in it for them, but otherwise will ignore you, or even hurt you. Which is the true friend?

In a way, the distinction breaks down as follows – ethics-driven ESG strategies are trying to do the right thing, while business risk-driven ESG strategies are trying to profit from the issues associated with people doing the right thing. Investors deserve to know in which kind of strategy they are investing. The SEC can make it so by revising the Proposal to reflect this critical distinction in ESG strategies.

Thank you for considering these comments.

Sincerely,

A handwritten signature in blue ink, appearing to be 'J. Katz', with a stylized, cursive script.

James J Katz  
Chief Executive Officer  
Humankind Investments LLC